

STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY
DEPARTMENT OF CORPORATIONS
www.corp.ca.gov

**INFORMATION TO ASSIST PERSONS APPLYING FOR AN INVESTMENT ADVISER CERTIFICATE
POST-EFFECTIVE REQUIREMENTS**

Once the certificate is issued, it remains in effect until suspended or revoked by order of the California Corporations Commissioner ("Commissioner") or surrendered by the investment adviser.

I. AFFIRMATIONS

Persons issued certificates are charged with the responsibility of familiarizing themselves with the applicable sections of the California Corporate Securities Law of 1968 and the California Code of Regulations ("CCR"), Title 10, Chapter 3, Subchapter 2, which includes, among other things:

- Promoting fair, equitable, and ethical principles of conduct;
- Having skills and knowledge, or working experience, appropriate for accomplishing compliance with the law and rules;
- Timely payment of all fees;
- Maintaining and preserving books and records according to standard accounting principles and the rules and regulations of the Commissioner (CCR 260.241.3); and
- Having books and records available at all reasonable times for examination by the Commissioner.

II. ANNUAL RENEWAL

The annual renewal fee of \$125 is to be paid directly to the Investment Adviser Registration Depository ("IARD") in accordance with its instructions. The annual renewal program begins November 1st of each year and your renewal statement is only available online via the IARD system. Full payment of your firm's Preliminary Renewal Statement is due the first week of December. More information on the renewal program and key dates may be found on the IARD web site at <http://www.iard.com/renewals.asp>. Payment of the renewal fee will keep your certificate in effect during the next calendar year. Note: The annual renewal fee does not apply if you are also licensed as a broker-dealer under Code Section 25210.

III. NOTICE OF CHANGES [CCR 260.241.4]

(a) Amendments to Form ADV are to be completed in accordance with the instructions in Form ADV and filed with the Investment Adviser Registration Depository ("IARD") in accordance with its procedures.

(b) An annual updating amendment is to be completed in accordance with the instructions in Form ADV and filed within 90 days of your fiscal year end. The annual updating amendment is to be filed directly with IARD in accordance with its procedures.

IV. MINIMUM FINANCIAL REQUIREMENTS [CCR Section 260.237.2]

(a) If your principal of business is in California and if you (i) have custody of client funds or securities, (ii) have discretionary authority over client funds or securities or (iii) accept prepayment of more than \$500 per client and six or more months in advance, you are subject to minimum financial requirements. If you have custody of client funds

or securities, you must maintain at all times a minimum net worth of \$35,000. If you have discretionary authority over client funds or securities but do not have custody of client funds or securities, you must maintain at all times a minimum net worth of \$10,000. If you accept prepayment of more than \$500 per client and six or more months in advance, you must maintain at all times a positive net worth.

(b) If your principal place of business is in a state other than California, you should maintain such minimum capital as required by the state in which you maintain your principal place of business, provided that you are licensed or registered in such state and are in compliance with such state's minimum capital requirements. If you are not licensed or registered in the state where you maintain your principal place of business, you are subject to California's minimum financial requirements.

(c) The minimum financial requirements do not apply if you are licensed as a broker-dealer under Code Section 25210.

V. FINANCIAL FILING REQUIREMENTS

A. Upon Discovery [CCR Section 260.237.2(c)]

Unless otherwise exempted, as a condition of the right to continue to transact business in this state, every investment adviser must, by the close of business on the next business day following the discovery that the investment adviser's net worth is less than the minimum required, notify the Commissioner. After transmitting such notice, each investment adviser will file by the close of business on the next business day a report with the Commissioner of its financial condition, including the following:

- A trial balance of all ledger accounts;
- A statement of all client funds or securities which are not segregated;
- A computation of the aggregate amount of client ledger debit balances; and
- A statement as to the number of client accounts.

B. Interim Reports [CCR Section 260.241.2(d)]

(1) If you are subject to the alternate minimum financial requirements (CCR Section 260.237.1), you must file monthly reports with the Commissioner within 15 days after your tangible net capital is reduced to less than 120% of the minimum tangible net capital or your total aggregate indebtedness is in excess of 400% of your tangible net capital.

(2) If you are subject to the minimum financial requirements (CCR Section 260.237.2), you must file monthly reports with the Commissioner within 15 days after your net worth is reduced to less than 120% of your required minimum net worth.

C. Annual Reports [CCR Section 260.241.2]

(1) If you are subject to the minimum financial requirements, you must file with the Commissioner, not more than 90 days after your year-end, an annual financial report that reflects your financial condition. The annual financial report is to contain a Statement of Financial Condition and must be prepared in accordance with generally accepted accounting principles.

(2) If you are subject to the alternate minimum financial requirements (CCR Section 260.237.1) and only take limited power of attorney to execute transactions on behalf of clients or if you are subject to the minimum financial requirements (CCR Section 260.237.2) and only have discretionary authority over client funds or securities, the financial statements need not be audited.

(3) If you have held or accepted custody of funds and/or securities for or owe money or securities to customers or clients during the period covered, you must file audited financial statements prepared by an independent certified public accountant or independent public accountant.

(4) The financial statements must be accompanied by a verification form. The verification form (a) must affirmatively state, to the best knowledge and belief of the person making the verification, that the financial statements and supporting schedules are true and correct and (b) must be signed under penalty of perjury. You may use the [Verification Form Pursuant to CCR 260.241.2\(b\)](#) form for this purpose.

VI. INVESTMENT ADVISER REPRESENTATIVES (“IAR”) AND ASSOCIATED PERSONS

References to an investment adviser representative means both an investment adviser representative and an associated person of an investment adviser, as those terms are defined in Code Section 25009.5(a).

A. Employment Requirements [CCR 260.236.1(a)]

Upon employment of an individual as an investment adviser representative (“IAR”), you are to:

(1) Obtain a properly executed application for registration on the Uniform Application for Securities Industry Registration or Transfer Form (Form U-4),

(2) Obtain for your records evidence that the investment adviser representative meets the qualification requirements of CCR Section 260.236, and

(3) Have the responsibility and duty to ascertain by reasonable investigation the good character, business reputation, qualifications, and experience of an individual upon employment or engagement as an investment adviser representative. Where an individual has previously been reported to the Central Registration Depository (“CRD”), you are also to obtain and review a copy of the Uniform Termination Notice of Securities Industry Registration (Form U-5) filed with CRD by such individual’s most recent previous employer, together with any amendments thereto.

You are to conduct this investigation no later than thirty (30) days following the filing of Form U-4 with CRD or the Commissioner, or demonstrate that you have made a reasonable effort to comply with this section. Upon completion of the investigation, the investment adviser is to take whatever action is deemed appropriate in accordance with sound business practice and the protection of investors.

Evidence of compliance with the qualification requirements and investigation of the investment adviser representative is to be maintained as a part of your books and records.

B. Filing Requirements [CCR 260.236.1(a)]

(1) Employment - Upon employment of an IAR, Form U-4 including any Disclosure Reporting Page(s) is to be completed in accordance with the form instructions and filed with, and the reporting fee of \$25 paid to, CRD in accordance with its procedures.

The filing of Form U-4 with CRD does not constitute an automatic approval of the filing by the Commissioner. You should not consider an IAR “registration” approved until approved by the Commissioner and you have been notified of the approval through CRD.

If requested by the Commissioner, additional information, documentation or details pertaining to the Form U-4 or the investment adviser representative’s compliance with the qualification requirements must be filed directly with the Commissioner within 15 days from the date of the request. Form U-4 may be abandoned if the Commissioner does not receive the requested information within the time prescribed. If you are filing with IARD, the Commissioner will “reject” through CRD an abandoned Form U-4.

(2) Changes – Within 30 days of any changes to Form U-4, an amendment to Form U-4 is to be directly with CRD in accordance with its procedures. If Form U-4 is amended due to a disciplinary occurrence, a copy of the amendment must be filed directly with the Commissioner upon request.

(3) Termination - Within 30 days of termination of an IAR, Form U-5 is to be filed in accordance with the form instructions and filed directly with CRD in accordance with its procedures. Form U-5 is to clearly state the reason(s) for termination. If an investment adviser representative has been terminated for cause Form U-5 must, upon request, be filed directly with the Commissioner.

You will be responsible for the acts, practices, and conduct of an IAR in connection with acting as an investment adviser representative on your behalf until such time as the IAR has been terminated and Form U-5 has been filed with CRD. The filing of Form U-5 constitutes notice to the Commissioner and the public that the IAR is no longer acting on your behalf. No civil liability in favor of any private party will arise against any person as a result of this provision, except as expressly provided in the Code.

C. Qualification Requirements [CCR 260.236]

(a) Each IAR, except those employed or engaged by an investment adviser solely to offer or negotiate for the sale of investment adviser services, must qualify by passing, within two years prior to the date of becoming engaged as an IAR, (1) the Series 65/Uniform Investment Adviser Law Examination in effect on January 1, 2000 ("2000 Series 65 Examination"), or (2) the Series 7/General Securities Representative Examination ("Series 7 Examination") and the Series 66/Uniform Combined State Law Examination ("2000 Series 66 Examination").

(b) Waivers - The requirements of CCR Section 260.236(a) do not apply to: (1) any investment adviser or individual employed or engaged as an investment adviser representative or associated person registered, reported or licensed in any state of the United States as of December 31, 1999 and (2) any investment adviser or investment adviser representative or associated person who has been actively and continuously engaged in the securities business as a broker-dealer, an agent of a broker-dealer, an investment adviser, or an investment adviser representative or associated person without substantial interruption (two or more years) since passing the (a) Series 2 Examination (SECO/NASD Nonmember General Securities Examination) or Series 7 examination before January 1, 1998, or (b) the Series 65 Examination or Series 66 Examination before January 1, 2000 and the Series 7 Examination.

(c) Exemptions – CCR Section 260.236(a) does not apply to the following:

(1) Any individual who has been registered as an investment adviser or employed or engaged as an investment adviser representative or association person in any state for two consecutive years immediately before the date of filing an application or notice in this state. This provision does not apply to an individual using the exemption in CCR Section 260.236(c)(2).

(2) Any investment adviser representative or associated person employed by or engaged by an investment adviser only to offer or negotiate for the sale of investment advisory services of the investment adviser.

(3) Any individual who currently holds in good standing one of the following designations: Chartered Financial Analyst ("CFA") granted by the Association for Investment Management and Research; Chartered Financial Consultant ("ChFC") awarded by The American College, Bryn Mawr, Pennsylvania; Certified Financial Planner ("CFP") issued by the Certified Financial Planner Board of Standards, Inc.; Chartered Investment Counselor ("CIC") granted by the Investment Counsel Association of America; or Personal Financial Specialist ("PFS") administered by the American Institute of Certified Public Accountants.

Individuals that must satisfy the qualification requirements set forth under CCR Section 260.236 can apply for the 2000 Series 65 Examination by filing the Uniform Examination Request for Non-NASD Candidates ("Form U-10") with the National Association of Securities Dealers ("NASD") at 9513 Key West Avenue, Rockville, MD 20850.

D. Fees

The filing fee for each IAR is \$25 and is to be sent directly to CRD in accordance with its instructions. There is no annual renewal fee for an IAR.